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December 21, 2007

Mr. Ernest Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

RE: Arizona Public Service Company's Renewable Energy Standard Implementation Plan  
Docket No. E-01345A-07-0468

Dear Mr. Johnson:

In its Distributed Energy Administration Plan, currently before the Commission for approval in the Docket reference above, APS had proposed that Total Project Costs include financing charges for purposes of calculating caps on commercial distributed energy incentives. During recent discussions with interested Stakeholders, it came to our attention that some Stakeholders do not wish to disclose financing charges even though it will result in a lower cap for the total in incentive payment.

APS sent a letter to Mr. Rick Gilliam of SunEdison on December 21, 2007, stating that APS would not require the disclosure of financing charges, but rather make it optional for customers. The incentive cap would however only apply to the project costs that were disclosed. APS is also requesting that the portion of the Distributed Energy Administration Plan in question be modified to reflect the Stakeholders concerns. The change requested is shown in the attached page from the Distributed Energy Administration Plan and only involves changing the word "must" to "may" in Section 6.4 on page 18 of the Plan. Also attached is a copy of the letter sent to Mr. Gilliam for your reference.

If you or your staff have any questions about the enclosed information, please call Jeff Johnson at 602-250-2661.

Sincerely,

*Barbara Klemstine / sc*

Barbara Klemstine

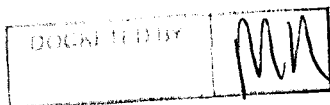
BK/rcm

Attachments

CC: Ray Williamson  
Brian Bozzo  
Terri Ford  
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Arizona Corporation Commission  
**DOCKETED**

DEC 21 2007



AZ CORP COMMISSION  
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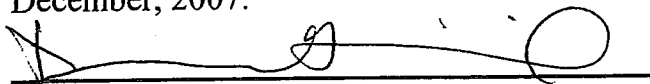
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December 21, 2007

Rick Gilliam  
Managing Director, Western States Policy  
SunEdison  
590 Redstone Drive  
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RE: Arizona Public Service Company's Renewable Energy Rules Implementation Plan;  
Docket No. E-01345A-07-0468

Dear Mr. Gilliam,


As you requested, APS is providing an interpretation of its Distributed Energy Administration Plan ("DEAP"), Section 6.4 Incentive Caps relating to the disclosure of project financing costs. Specifically, you have raised questions about the following provision, specifically the highlighted language:

*"A PBI cannot exceed 60% of the "real project cost" for the DE system. Real project costs are defined as the undiscounted total system cost plus "acceptable financing" charges. Acceptable finance charges are finance charges used for the PBI incentive cap calculation and cannot exceed the current prime interest rate plus 5%. **Financing charges must be disclosed as part of the commissioning package, if not disclosed before.** The PBI incentive cap will decline in the third year of the program to 55% of the real project cost, and the cap will decline further to 50% of the real project cost in the fifth year of the program and beyond." [Emphasis added.]*

Based on our discussions, APS now understands there are concerns from several stakeholders about disclosing financing costs, even to APS confidentially, due to their competitive and confidential nature. While the paragraph clearly states that "financing charges must be disclosed", APS will not require that disclosure to finalize reservations and begin processing payments, unless the Arizona Corporation Commission directs us otherwise. However, the declining caps noted in that paragraph (60% Year 1, 55% Year 3, 50% Year 5) would then apply to only the disclosed project costs. APS will continue to review those disclosed costs to determine that only costs directly associated with the installation of the equipment necessary to produce solar energy to generate electricity to heat and/or cool building interiors or to provide hot water are included.

APS will file a copy of this letter with the Commission's Docket Control and will request that the language in that paragraph in the Company's proposed DEAP be changed to reflect that financing charges "may" be disclosed instead of "must" be disclosed. If you should have any further questions please do not hesitate to contact us.

Sincerely,



ON BEHALF OF

Barbara D. Lockwood  
Manager, Renewable Energy  
Arizona Public Service

## ATTACHMENT B

- e. Once funds have been reserved for a lot, no future reservation may be applied to that lot or the same technology until the original reservation has expired.

### 6.3 Standardized Incentives

The incentives levels provided as part of this Plan were collaboratively developed, and, in part, were created to help or expand incipient markets for DE, taking into account each technology's specific market conditions, and placing a portion of the cost on the Participant. Incentive levels are provided in accordance with the applicable year project incentive matrix included as Exhibit 1.

### 6.4 Incentive Caps

DE incentives can be applied to systems designed to serve only the typical load of the Participant. The assessment of that typical load does not preclude the periodic production of electricity in excess of the Participant's demand. Under some circumstances it is understood that select Participant installations will be designed to serve loads greater than that of the Participant. Under those circumstances, the incentive will be applied only to the fraction of the generation that is used to serve the typical Participant load. The DE incentives were developed separate and apart from other utility program incentives, such as those for demand side management projects. Systems are not eligible to receive DE incentives if incentives from other APS programs are received.

A PBI cannot exceed 60% of the "real project cost" for the DE system. Real project costs are defined as the undiscounted total system cost plus "acceptable financing" charges. Acceptable finance charges are finance charges used for the PBI incentive cap calculation and cannot exceed the current prime interest rate plus 5%. Financing charges must may be disclosed as part of the commissioning package, if not disclosed before. The PBI incentive cap will decline in the third year of the program to 55% of the real project cost, and the cap will decline further to 50% of the real project cost in the fifth year of the program and beyond.

Dealer's and manufacturer's incentives are capped at 50% of the system cost basis. Dealers cannot include installation costs in the cost basis calculation. Dealers must provide verification for the cost paid for each system component. Manufacturers cannot include their own technology in the cost basis.

For residential solar hot water heating systems, Participants are required to contribute a minimum of 15% of the "actual system cost." The actual system cost will be calculated by assuming the full application of all available federal and state incentives, regardless of the Participant's ability to realize any particular incentive; adding the Participant contribution (15%), and finally adding the program incentive. If the incentive can be fully applied without exceeding the actual system cost, the Participant will receive the full incentive amount. If the incentive cannot be fully applied without exceeding the actual system cost, the incentive will be capped so as not to exceed the system cost.